

**SCOTTSDALE TOURISM DEVELOPMENT COMMISSION
CITY OF SCOTTSDALE
PINNACLE CONFERENCE ROOM AT HUMAN RESOURCES
7575 EAST MAIN STREET
SCOTTSDALE, ARIZONA 85251
JUNE 29, 2011
SPECIAL MEETING
APPROVED MINUTES**

PRESENT: Kate Birchler, Chairwoman
Kathleen Glenn, Commissioner
David Richard, Commissioner
Leon Young, Commissioner

ABSENT: Mike Surguine, Vice Chairman
Michael Hoffman, Commissioner
Ace Bailey, Commissioner

STAFF: Steve Geiogamah, Tourism Development Coordinator
Bob Tunis, Economic Development Manager
Lee Guillory, Finance Manager, Financial Services
Rita McCleary, Economic Vitality

GUESTS: Rachel Sacco, SCVB
Brent DeRaad, SCVB
Betty Drake
Janice Wright
Barry Lewis
Bob Couethy
Michael Medici

1. Call to Order/Roll Call

Noting the presence of a quorum, Chairwoman Birchler called the special meeting of the Scottsdale Tourism Development Commission to order at 11:01 a.m.

2. Approval of Minutes

- June 7, 2011 Regular Meeting

COMMISSIONER YOUNG MOVED TO APPROVE THE MINUTES OF THE JUNE 7, 2011 REGULAR MEETING. COMMISSIONER GLENN SECONDED. THE MOTION CARRIED BY A VOTE OF FOUR (4) TO ZERO (0). VICE CHAIRMAN SURGUINE AND COMMISSIONERS BAILEY AND HOFFMAN WERE ABSENT.

3. Bed Tax Allocation

Ms. Lee Guillory reviewed some of the changes that City Council made to the bed tax allocation policy since it was last presented to the TDC. The non-marketing portion of the bed tax will be allocated as follows: 24% to the General Fund, 8% to admin/research, and 18% to event development. The event development portion was reduced from 19% to 18% in order to divide the bed tax equally between the City's bed tax portion.

From the City's half of the overall pie chart, one 10% wedge can be allocated to either a capital project, for event development, or for administration/research expenses. This wedge must be a one-time commitment and it cannot be used for debt service. The remaining 40% must be allocated to at least four different capital projects, not to exceed 10% for any one. These can be one-time commitments, or leveraged up for debt service payments. One 10% wedge has already been committed for debt service towards the 80-acre land purchase on Bell Road, leaving three capital projects to share the remainder.

Ms. Guillory said City Council also approved a policy allowing the unused carryover balance to be applied to any wedge except for the General Fund. It can be used entirely on one wedge or spread amongst numerous wedges, but cannot be leveraged towards debt service.

Chairwoman Birchler inquired whether the TDC's recommendation to restrict bed tax from covering more than 50% of a project's budget was approved. Ms. Guillory said the idea was presented to Council but not accepted. No limits have been placed on how much bed tax can be used to fund capital projects. Council also decided not to formally include language in the policy requiring a TDC recommendation on any capital project that uses bed tax money, even though it remains the City's practice to do so.

Chairwoman Birchler inquired whether a single capital project could use money from both the carryover balance and a recurring 10% wedge. Ms. Guillory said projects could apply for both, but doubted whether both requests would be granted. Mr. Tunis explained that a project like the addition of Wi-Fi to the Civic Plaza could qualify as a one-time expenditure, since that money would cover the project completely and would not be recurrent. Projects would still have to be tourism related in order to qualify.

Chairwoman Birchler inquired whether a single project could be fully funded by the bed tax if it applied for money every year. Ms. Guillory confirmed that this could be the case. A new capital project requiring a debt service payment of \$600,000 a year for 30 years would use up one wedge for that amount of time. If the TDC's three remaining wedges are committed to long-term debt service for capital projects, there would only be one wedge available to use every year towards a one-time capital project or event. If revenues grow in the future, additional money would be freed up, resulting in another wedge becoming available. Commissioner Glenn queried what would happen as a result of a drop in revenues. Ms. Guillory explained that the last wedge cannot be committed long term so it could serve as a contingency in the case of a downturn. The carryover also falls into that same category.

Commissioner Richard stated that since bed tax revenue runs through up and down cycles, it would be risky to extend debt service commitments beyond five years. Ms. Guillory responded that the reason the carryover balance is allowed to grow during good times is to prepare for downturns. The TDC could make a recommendation on how to spend next year's carryover balance.

Chairwoman Birchler noted that she attended the City Council meeting with the intent of speaking during the public comment period, but was unable to stay for the entire meeting. She expressed the TDC's concerns on a comment card.

Commissioner Glenn inquired about accountability in the case of capital project partnerships that do not perform as well as projected. Ms. Guillory explained that consequences are negotiated into contracts, and the TDC could make recommendations on applicable contract language.

Mr. Tunis reiterated that the City's practice on any project that uses bed tax funding is to go to the TDC first for a recommendation before going to Council. Commissioner Glenn noted that the Americans with Disabilities Act improvements at WestWorld never went through the TDC. Commissioner Richard said the TDC must have an opportunity to weigh in on whether a capital project is actually a tourism driver. Chairwoman Birchler said it is a matter of courtesy to seek the TDC's opinion.

Commissioner Young inquired whether Council intends to appoint someone to sit in on TDC meetings as Councilman Ecton did. Chairwoman Birchler said she spoke to Mayor Lane about this and he is considering appointing a TDC liaison. He is also receptive to the idea of a joint work study session between Council and the TDC.

In response to an inquiry from Chairwoman Birchler, Ms. Guillory explained that City Manager David Richert had requested that the carryover change be formally included in the Council action and the ordinance. Commissioner Richard said major last minute changes show a lack of courtesy. Ms. Guillory noted that Vice Mayor Littlefield would have preferred a minimum of two capital projects instead of four. Ms. Sacco emphasized that the TDC's arguments did have a tremendous impact on the City Council discussion, even though their recommendations were not approved. City Council appreciates the TDC's advice on complex issues.

4. Tony Nelssen Equestrian Center at WestWorld

Mr. Tunis reported that the Equidome is asking City Council for \$600,000 in funding from the bed tax revenue. With this funding, they will be able to build and operate the expansion. The additional revenues will make up for any shortfall after the \$600,000. The 251,286 square foot project is projected to cost \$30,257,144. The City's policy requires a 10% contingency and an overhead of \$3 million. The \$33 million of total financing would require a 20-year bond life, which works out to \$2.5 million per year in debt service.

Mr. Tunis said that with the current operating expenses amounting to \$3,067,000 annually, the Equidome has an 87.9% cost recovery. The annual shortfall of \$370,000 currently comes out of the General Fund. After the expansion, the operating budget

would be \$4,609,000. An expanded Equidome would continue to operate throughout the summer, with room for 12 major new shows. Commissioner Glenn asked how long it would take to attract that many major new shows. Mr. Tunis responded that they are all expected within the first year of completion in 2014. Commissioner Richard inquired about the percentage of operating revenues that come from existing horse-related shows. Janice Wright explained that 179 event days are booked every year, and of those about 30 are non-equestrian.

Mr. Tunis stated that the improved facilities would bring in an estimated \$5,862,422 in total projected revenue, including 9 additional smaller new shows. The City approached a number of the equine associations to see whether they would be willing to contribute additional money for debt service. Two of them have pledged a total of \$290,000 annually. This figure combined with the bed tax allocation and General Fund support makes \$1,247,000 available for debt service annually. The total of all projected revenues of \$7,109,422, minus the debt service of \$2,500,000, means that operating expenses would be \$4,609,422. The expansion would make 32 additional days available for new event bookings. The sales tax from the new shows could be \$1,300,000, and the bed tax from the new shows could be \$887,000. Debt service would be for 20 years.

One recent American Horse Council survey estimated that equine shows in the U.S. generate more than \$10 billion in direct economic impact and support nearly 100,000 jobs annually. Existing and potential users claim that the Equidome expansion would allow development of new summer circuits. Scottsdale's potential to draw high caliber national events is enhanced. No other facility in the west would have a similar combination of programming and destination attributes. The expansion would have the ability to attract national sponsors for major events.

Chairwoman Birchler stated that there is no doubt that the project would be a tourism driver and the improvements are necessary, but the TDC's concern rests in the overall funding of the project. The TDC is responsible for considering all tourism-related capital projects and their capacity for revenue generation. Commissioner Richard inquired about the availability of private sector money apart from the contributions from equine associations. Ms. Wright said an expanded facility that attracts major national events would be appealing to a national sponsor. Mr. Tunis clarified that the provided estimates do not include private sponsorship. The estimate demonstrates that the numbers work even without private sponsorship.

Commissioner Richard stated that the DDC is doing its due diligence by first exploring the availability of private sector funding. The TDC has given \$650,000 already to the Equidome. Ms. Drake noted that all of the other major equestrian centers in the country have major sponsors. A sponsorship could bring in substantial money initially and on an annual basis, meaning less money would be requested from the bed tax in future years.

Mr. Tunis said existing users indicate that 12 annual events over 59 days at WestWorld would increase the number of horses by 20% to 50% almost immediately. New event growth over time could generate another 53 event days annually from existing users. Potential users identified 14 regional/national events representing 74 event days that could be held at an expanded WestWorld.

Commissioner Richard asked whether the revenue estimates for WestWorld include the \$5 million from Barrett-Jackson, which is planning to move into the multi-purpose center should it be built. Mr. Tunis said his understanding is that they would continue to use WestWorld as well.

Chairwoman Birchler invited public comments.

Ms. Drake noted that the three major winter horse shows contributed positive net revenue to the City, while Barrett-Jackson is subsidized at \$2 million per year. Since a lot of car auction sales go out of state, Scottsdale sees no sales tax from them. The City does not get a percentage of the parking fees either, and that event also place high demands on the City for special equipment. The City has already invested heavily in WestWorld. The development team is already on board, and the project is very time sensitive. National championship shows have already indicated their intent to move to an expanded WestWorld. It would increase Scottsdale's recognition nationally. The project would enhance the summer season draw, when tourism revenue is needed the most. Horse shows are proven tourism drivers. The project will generate over 30,000 new room nights per year. Each horse brings in three or four people, in addition to judges and staff. The expansion could be used for equestrian events and trade shows. The equestrian community is pledging a substantial commitment to the project, and a private sponsorship is likely. She clarified that the debt service that WestWorld is currently carrying is for the 80 acres of state land to the north, not for the land the Equidome is on.

Commissioner Young inquired about the methodology used to determine the 30,000 room nights. Ms. Drake explained that Crossroads Consulting conducted an economic analysis that incorporated detailed impact projections made by several event centers in Texas. Commissioner Richard noted that a portion of revenue from RV spaces goes towards the bed tax.

Ms. Sacco reported that the National Arabian Horse Show is intent on relocating to Scottsdale should the expansion project occur. Ms. Wright added that her event spends about \$1 million on infrastructure each year in tents and other costs. Attendees noted that the low hotel room rates in the summer are a great deal for travelers. Scottsdale has been trying to attract summer events for decades but has failed due to the lack of appropriate venues.

Chairwoman Birchler proposed that the TDC's recommendation include either an overall cap or an annual bed tax limit. Commissioner Richard proposed that the bed tax multi-year commitment be \$300,000 instead of \$600,000. In that way, the TDC contribution would be roughly the same as the General Fund and the equine association contributions. The resulting \$300,000 shortfall should come from the private sector. Ms. Sacco noted that the Equidome proforma is based on a \$600,000 bed tax contribution. Commissioner Glenn suggested that performance stipulations be included in the recommendation.

CHAIRWOMAN BIRCHLER MOVED TO RECOMMEND THAT THE BED TAX ALLOCATION BE \$600,000 ANNUALLY, UP TO 50% OF THE TOTAL PROJECT, AND THAT THE TDC BE GIVEN THE OPPORTUNITY TO EVALUATE ANNUAL PERFORMANCE MEASURES. COMMISSIONER GLENN SECONDED.

Chairwoman Birchler requested that the TDC's recommendation be included in the City Council presentation. Barring that, a Commissioner should attend to present the actual motion at the Council meeting. Past TDC recommendations have been buried, and City Council should be made aware that the Commission has spent quality time discussing this matter with WestWorld. Ms. Guillory said it would be up to Brian Dygert to include the recommendation in the presentation.

THE MOTION CARRIED BY A VOTE OF FOUR (4) TO ZERO (0). VICE CHAIRMAN SURGUINE AND COMMISSIONERS BAILEY AND HOFFMAN WERE ABSENT.

5. WestWorld Multi-Purpose Event Center

This item was tabled due to time constraints.

6. Identification of Future Agenda Items

Chairwoman Birchler invited Mike Medici and Tim Bolinger back to the next meeting to make their presentation. She noted that the July 19 meeting has been cancelled, but there will be a meeting in August. Commissioner Young requested a discussion on the Event Development Program, and a discussion on the noise ordinance.

7. Public Comment

There were no public comments.

8. Adjournment

The meeting adjourned at 12:18 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.